



ARNOLD SCHWARZENEGGER, GOVERNOR

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May 21, 2009

Mr. Russell K. Henly, Assistant Deputy Director
California Department of Forestry and Fire Protection
P.O. Box 944246
Sacramento, CA 94244-2460

Dear Mr. Henly:

Final Report—Fire Safe Council of Nevada County Proposition 40 Grant Audits

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audits of the Fire Safe Council of Nevada County (FSCNC).

Grant Agreement

8CA04562

8CA06516

Audit Period

June 1, 2005 to December 31, 2007

March 31, 2007 to June 30, 2008

The enclosed report is for your information and use. In accordance with Finance's policy of increased transparency, this final report will be placed on our website. We appreciate the assistance and cooperation of the FSCNC. If you have any questions, please contact Frances Parmelee, Manager, or Jennifer Whitaker, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Joanne Drummond, Executive Director, Fire Safe Council of Nevada County
Mr. Dennis Cassella, Chairman, Fire Safe Council of Nevada County
Mr. Rick Nolle, Treasurer, Fire Safe Council of Nevada County
Mr. Robb Forsberg, Manager, Fiscal Administration and Coordination Section, California
Department of Forestry and Fire Protection
Mr. Patrick Kemp, Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

A GRANT AUDIT

Fire Safe Council of Nevada County Proposition 40 Grant Agreements 8CA04562 and 8CA06516



Source: Courtesy of Fire Safe Council of Nevada County

Prepared By:
Office of State Audits and Evaluations
Department of Finance

093540082

April 2009

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Jennifer Whitaker
Supervisor

Staff
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In 2002, voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Act (Proposition 40), authorizing the sale of \$2.6 billion in general obligation bonds. These bond proceeds provide funding for clean air, clean water, clean beaches, and healthy natural ecosystems that can support both human communities and the state's native fish and wildlife. Proposition 40 also provides funding for the protection, restoration, and interpretation of the diverse cultural influences and extraordinary human achievements that have contributed to the unique development of California.

The California Department of Forestry and Fire Protection (CAL FIRE) received Proposition 40 funds for watershed protection through the community assistance fuel reduction grant program. The goal of the program is to reduce catastrophic wildfire risk thereby improving water quality and protecting wildlife habitat. Grant funds were available to nonprofit and government entities located in 15 counties (Plumas, Butte, Nevada, Yuba, Placer, Amador, El Dorado, Tuolumne, Calaveras, Madera, Mariposa, Alpine, Fresno, Kings, and Tulare).

The Fire Safe Council of Nevada County (FSCNC) was formed in 1998 by a group of concerned citizens in an effort to create a fire safe Nevada County. The purpose of the FSCNC is to work toward reducing the risk of life and property loss from wildfire.

FSCNC received grants from CAL FIRE to support a fuels reduction chipping program for Nevada County, encompassing chipping services and public education and awareness projects.

SCOPE

In connection with the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted audits of the following grants:

| <u>Grant Agreement</u> | <u>Audit Period</u> | <u>Awarded</u> |
|------------------------|-----------------------------------|----------------|
| 8CA04562 | June 1, 2005 to December 31, 2007 | \$ 330,312 |
| 8CA06516 | March 31, 2007 to June 30, 2008 | \$ 180,500 |

The audit's objective was to determine whether the FSCNC's grant revenue and expenditures were in compliance with applicable laws, regulations, and grant requirements. We did not assess the efficiency or effectiveness of program operations.

The FSCNC's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. CAL FIRE along with the California Natural Resources Agency is responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether grant revenue and expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant agreements, applicable policies and procedures, and the grant files maintained by CAL FIRE.
- Reviewed the FSCNC's accounting records, vendor invoices, pay warrants, bank statements, timesheets, and payroll records.
- Selected a sample of expenditures, including labor costs, to determine if costs were allowable, grant related, incurred within the grant period, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.

The results of the audit are based on our review of documentation and other information made available to us and interviews with staff responsible for administering the bond funds. The audit was conducted from October 2008 through April 2009.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

RESULTS

Overall, the Fire Safe Council of Nevada County's (FSCNC) grant revenue and expenditures were expended in compliance with applicable laws, regulations, and the grant requirements. While the audit did not result in questioned costs, one observation was identified. The *Schedules of Claimed, Audited, and Questioned Amounts* and our observation are presented below.

Table 1: Schedules of Claimed, Audited, and Questioned Amounts

| Grant Agreement 8CA04562 For the Period June 1, 2005 to December 31, 2007 | | | |
|--|------------|------------|------------|
| Category | Claimed | Audited | Questioned |
| General Administration | \$ 50,043 | \$ 50,043 | \$ 0 |
| Contractual Services | 280,269 | 280,269 | 0 |
| Total Expenditures | \$ 330,312 | \$ 330,312 | \$ 0 |

| Grant Agreement 8CA06516 For the Period March 31, 2007 to June 30, 2008 | | | |
|--|------------|------------|------------|
| Category | Claimed | Audited | Questioned |
| General Administration | \$ 30,850 | \$ 30,850 | \$ 0 |
| Contractual Services | 149,650 | 149,650 | 0 |
| Total Expenditures | \$ 180,500 | \$ 180,500 | \$ 0 |

Claimed Administrative Costs were not Directly Related to the Grant Projects

The FSCNC's administrative cost allocation methodology for both grants included costs not directly related to the grant projects. Administrative costs such as food and beverages, annual audit fees, recognition awards, and donations were included in the allocation. While we determined these costs to be operational, they are not directly related to the grant projects. The *Proposition 40 Procedural Guide* states administrative costs charged against bond proceeds shall be directly related to the activities in administering the bond program and they should be reasonable and demonstrable. Although we deemed the questioned costs immaterial, it is imperative FSCNC improve its accountability by complying with applicable bond requirements.

Recommendation

Develop, implement, and consistently apply a reasonable and verifiable basis for allocating administrative costs to the grant that complies with the applicable laws, regulations, and grant requirements. The administrative cost pool and allocation percentages should only include the costs directly related to the execution of the grant project.

RESPONSE



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May 12, 2009

David Botelho, CPA
Chief, Office of State Audits & Evaluations
915 L Street
Sacramento, CA 95814-3705

RE: Grant Audit for Prop 40 Agreements 8CA04562 & 8CA06516

Dear Mr. Botelho:

Thank you for your efforts to provide the taxpayers of California assurance that grant funds awarded are utilized in compliance with applicable laws, regulations and grant requirements. We would also like to extend our accolades for the quality of your staff in performing the audit. They were professional, courteous and efficient. We enjoyed having them as guests in our office.

We would like to note that one of the two grant periods extended from June 1, 2005 through April 15, 2007. In July 2006, the Fire Safe Council of Nevada County hired a new Executive Director and recognized issues within the accounting system and worked with our contract auditor, Barbara Jicha, CPA, to address the issues through updated policies and procedures throughout 2007. One of these changes included a reorganization of our chart of accounts to address administration versus program expenses. These changes have resolved the issue of administration costs such as food and beverages for board meetings, annual fiscal audit fees, volunteer recognition awards and donations being separated from the overhead cost allocation for hours worked on grant funded projects and has enabled the accounting system to track these expenditures for funding from undesignated contributions to the council. We take the fiduciary responsibility of expenditure of grant funds very seriously and now review the monthly cost accounting to ensure that these funds are properly categorized and recorded. We will request that our future annual fiscal audits review these expenditures to ensure compliance with our internal policies and procedures to provide an overview that will ensure our system is working properly.

Thank you for your recommendation to further strengthen our organization and our accountability to our grant funding sources. We sincerely appreciate the opportunity to work with you and your staff.

Sincerely,

Original signed by:

Joanne Drummond
Executive Director

Cc: Fire Safe Council of Nevada County Board of Directors